



SFERS

San Francisco Employees' Retirement System

City and County of San Francisco Employees' Retirement System

RETIREMENT BOARD MEETING DRAFT MINUTES

Wednesday, August 14, 2019

1145 Market Street, 6th Floor
San Francisco, CA 94103

1:00 p.m.

Please take notice that the Retirement Board will begin its meeting with a closed session item. The Board will take public comment before going into closed session, limited to the topic of the closed session item. The Board will return to open session and begin the public portion of the meeting with General Public Comment, not earlier than 2:00 PM.

MISSION STATEMENT

San Francisco City and County Employees' Retirement System is Dedicated to Securing, Protecting and Prudently Investing the Pension Trust Assets, Administering Mandated Benefit Programs, and Providing Promised Benefits.

RETIREMENT BOARD MEMBERS

President

Joseph Driscoll

Vice President

Leona Bridges

Commissioners

Al Casciato

Carmen Chu

Scott Heldfond

Ahsha Safai

Brian Stansbury

Executive Director

Jay Huish

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Sunshine Ordinance Task Force
City Hall
1 Dr Carlton B. Goodlett Place, Room 244
San Francisco, CA 94103-4689
(415) 554-7724
by fax at (415) 554-7854
or by email at sotf@sfgov.org

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OPENING CALENDAR

1. Pledge of Allegiance

2. Roll Call

Commissioner Leona Bridges	1:10 PM
Commissioner Al Casciato	1:10 PM
Commissioner Carmen Chu	Absent
President Driscoll	1:10 PM
Commissioner Heldfond	1:10 PM
Commissioner Ahsha Safaí	Absent
Commissioner Stansbury	1:10 PM

3. 081419-03 Action Item CLOSED SESSION

President Driscoll called for public comment on the Board going into closed session.

There were no comments and public comment was closed.

The Board entered closed session at 1:10 PM

The following individuals were present for the closed session: Commissioners Bridges, Casciato, Driscoll, Heldfond, Stansbury; Jay Huish, Executive Director; Caryn Bortnick, Deputy Executive Director; William J. Coaker, Chief Investment Officer; Kurt Braitberg, Managing Director, Public Markets; Anna Langs, Managing Director Asset Allocation, Risk Management and Innovative Solutions; David Francl, Managing Director, Absolute Returns; Tanya Kemp, Managing Director for Private Markets; Chris Chow, Director for Natural Resources; Ed Comerford, Director for Real Assets; Andrew Collins, Director of ESG Investing; Han Pham, Director Public Equity; Victoria Owens, Justin Lo, Bo Williamson, Alo Martins, Senior Portfolio Managers; Dennis Esselsagoe, Luke Angus, Tiffany Dong, Mark Coleman, Kien Trinh, Chris Terrazzano, Security Analysts; Karen Perez, Investment Management Assistant; Darlene Armanino, Board Secretary; Robert Bryan, Molly Nordale, Deputy City Attorneys; Kelly Jensen, Anita Ng, Jacquelyn Klehn, Cambridge Associates; Allan Martin, Dan Hennessy, NEPC.

Board ended Closed Session at 2:20 PM

Meeting recessed from 2:20 PM to 2:30 PM

The Board returned to open session at 2:30 PM

President Driscoll called for public comment.

John Stenson, Member, spoke against hedge funds.

CONSENT CALENDAR

All matters listed hereunder constitute a Consent Calendar, are considered to be routine by the Retirement Board and will be acted upon by a single vote of the Retirement Board. There will be no separate discussion of these items unless a member of the Retirement Board so requests, in which event the matter shall be removed from the Consent Calendar and considered as a separate item.

6. 081419-06	Action Item	Consent Calendar
081419-06b	Action Item	Voluntary Retirement Board List No. 2-19
081419-06c	Action Item	Decisions of Hearing Officers
Thomas M. Abrahamsen Effective Date: 3/14/17	Q4 Police Officer III Police	Industrial Disability Retirement Granted
Orlando S. Arias Effective Date: PERS	8304 Deputy Sheriff Sheriff	Cal-PERS - Disability Retirement Certified
Brian A. Barron Effective Date: 9/30/17	Q4 Police Officer III Police	Industrial Disability Retirement Granted
Michael Castagnola Effective Date: 7/1/17	H40-Battalion Chief (Acting) Fire	Industrial Disability Retirement Granted
Donald R. Durkee Jr. Effective Date: 12/1/16	H10 Incident Support Specialist Fire	Industrial Disability Retirement Granted
Robert W. Hamblen Jr. Effective Date: 4/18/19	Q4 Police Officer III Police	Industrial Disability Retirement Granted
Cornelius H. Johnson Effective Date: 7/1/16	Q62 Lieutenant III Police	Industrial Disability Retirement Granted
Huan W. Liang Effective Date: 4/4/19	2708 Custodian SFUSD	Ordinary Disability Retirement Granted
Christopher D. Madsen Effective Date: 5/21/16	H30 Captain Fire	Industrial Disability Retirement Granted
Diane McKevitt Effective Date: 11/1/17	Q3 Police Officer II Police	Industrial Disability Retirement Granted

George J. Petty Effective Date: 1/15/14	H2 Firefighter (H20 LWLP) Fire	Industrial Disability Retirement Granted
Maurice Valentine Effective Date: PERS	8304 Deputy Sheriff Sheriff	Cal-PERS - Disability Retirement Certified
081419-06d	Action Item	Travel Requests
081419-06e	Discussion Item	Retirement Board Member Reports and Comments

Action: This is a discussion only item.

Documents provided to the Retirement Board prior to the current meeting: Voluntary Retirement Board List, Hearing Officer Decisions.

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: Moved by Commissioner Casciato, Seconded by Commissioner Heldfond to Approve Consent Calendar.

Ayes: Commissioners Bridges, Casciato, Driscoll, Heldfond, Stansbury

Absent: Commissioners Chu, Safaí

INVESTMENT CALENDAR

7. 081419-07 Discussion Item Chief Investment Officer Report

Documents provided to the Retirement Board prior to the current meeting: CIO Report

William Coaker, Chief Investment Officer, presented an oral and written report.

CIO Coaker reported that SFERS finished the fiscal year ended June 30, 2019 with an estimated return of 8.17%, up from an initial estimate on July 1st of 7.81%. The mark-up is due to final data from private equity, real assets, absolute return, private credit, and public equity managers. The high returns in public equity in the first half of 2019 led to markups for private investments for

the FYE June 30 that were reported in July and early August. FYE returns are still preliminary, but Mr. Coaker reported that he expects little change from the current fiscal year return estimate of 8.20%.

SFERS investments in July gained 0.14%. Public and Private Equity returned 0.30% and 0.60%, respectively, while Private Credit gained 0.73%. Real Assets returned -0.82% during the month.

SFERS portfolio has gained 9.98% in the first seven months of 2019. Public Equity has been the stalwart, returning 19.10%, the strongest seven-month return to start a year since 1987. Private Equity has gained 7.50% and Absolute Return is up 5.89%. All asset classes have posted positive returns so far this year.

Allan Martin, NEPC, congratulated SFERS on the exceptional investment performance for fiscal year 2018-2019.

Closed Session Disclosures:

Blackstone Real Estate Partners Europe VI SCSp

At its meeting on July 10, 2019, the Retirement Board approved in closed session an investment of up to \$50 million in Blackstone Real Estate Partners Europe VI SCSp. The investment was approved by the following vote:

Ayes: Commissioners Driscoll, Casciato, Heldfond, Safaí, Stansbury

Absent: Commissioners Bridges, Chu

SFERS' commitment of €44.85 million closed on August 7, which was the equivalent of \$50 million on July 30, the date of submission of the subscription. SFERS' investment in Blackstone Real Estate Partners Europe VI SCSp is classified as a real estate investment within SFERS' Real Assets portfolio and is SFERS' seventh investment with the Blackstone Real Estate Group.

More information about the firm is available at www.blackstone.com.

Voleon Investors Fund LP and Voleon Institutional Strategies Fund, LP

At its meeting on June 12, 2019 the Retirement Board approved in closed session an investment of \$200 million in aggregate to Voleon Investors Fund LP and Voleon Institutional Strategies Fund, LP, by San Francisco Absolute Return Investors II, LP ("SFARI II"). The investment was approved by the following vote:

Ayes: Commissioners Bridges, Casciato, Driscoll, Safaí, Stansbury

Absent: Commissioners Chu, Heldfond

SFERS's investment of \$50 million in Voleon Investors Fund LP and Voleon Institutional Strategies Fund, LP, closed on July 1, 2019.

This investment is classified as a Quantitative investment within SFERS' absolute return portfolio and is SFERS' first investment with Voleon via share class B of SFARI II.

More information about the firm is available at: <https://voleon.com/>

CIO Coaker reported that last month Institutional Investor LLC named the San Francisco Employees Retirement System as Public Pension Plan of the Year in their small fund category.

President Driscoll called for public comment.

John Stenson, Member, spoke against hedge funds and urged the Board to invest in stocks, bonds and real estate.

There were no further comments and public comment was closed.

Action: This was a discussion only item.

DEFERRED COMPENSATION PLAN CALENDAR

8. **081419-08** **Discussion Item** **Deferred Compensation Committee Report (THIS ITEM WAS CONTINUED FROM THE JULY 10, 2019 RETIREMENT BOARD MEETING)**

Documents provided to the Retirement Board prior to the current meeting: Deferred Compensation Committee Report for February 20, 2019 and June 11, 2019

Commissioner Bridges and Diane Chui Justen, Deferred Compensation Manager, reported on the Deferred Compensation Committee meetings of February 20, 2019 and June 11, 2019.

At their meeting on February 20, 2019, the Deferred Compensation Committee:

- Approved the Minutes of the December 27, 2018 Deferred Compensation meeting;
- Received an update on SFDCP administration costs;
- Received an update on the Stable Value Contract with Galliard;
- Received an SFDCP Manager report covering the Recordkeeper Transition, Qualified Charitable Distributions and Target Date Funds.

At their meeting on June 11, 2019, the Deferred Compensation Committee:

- Approved the Minutes of the February 20, 2019 Deferred Compensation meeting;

- Approved the proposed SFDCP loan policy and forwarded to the Full Board with a recommendation for Approval;
- Approved SFDCP's Self Directed Brokerage Platform to include mutual funds, Exchange Traded Funds (ETFs) and all publicly-registered securities, and forwarded to the Full Board with a recommendation for Approval;
- Approve SFDCP Advisory services through Voya Retirement Advisers and forwarded to the Full Board with a recommendation for Approval.

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: This was a discussion only item.

**9. 081419-09 Action Item Approval of the SFDCP's Self Directed Brokerage Platform
(THIS ITEM WAS CONTINUED FROM THE JULY 10, 2019
RETIREMENT BOARD MEETING)**

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum and Callan Presentation

Diane Chui Justen, Deferred Compensation Manager, and Greg Ungerman, SFDCP's Consultant, Callan Associates, presented a written and oral report on this item.

Ms. Chui Justen reported that the SFDCP currently allows participant access to a Self-Directed Brokerage Account (SDBA). The Self-Directed Brokerage (SDB) platform is dependent on the SFDCP's recordkeeper by virtue of recordkeepers choosing their own SDB providers. The SFDCP currently uses an SDBA available through Prudential's Investment Management Services division. Ms. Chui Justen reported that, before 2014, the SFDCP had used TD Ameritrade's SDB platform through prior recordkeepers since 2006.

Ms. Chui Justen reported that SFDCP participant utilization of the SDB platform has been minimal, with only \$14.5 Million invested, amounting to less than half of 1% of assets. For the current SFDCP SDB platform there is a \$5,000 minimum investment and a 50% maximum of a participant's account balance. In other words, participants need to have at least \$10,000 in their SFDCP account to open an SDBA. The current SDB platform is also limited to mutual funds.

On June 11, 2019, the Deferred Compensation Committee voted unanimously to approve expanding the SFDCP Self Directed Brokerage Platform to include mutual funds, ETFs and U.S. exchange securities, and forwarded the Committee recommendation to the Full Board with a Committee recommendation for approval.

Ms. Chui Justen and Mr. Ungerman reported that the Retirement Board is not responsible for

monitoring the performance of investments available through the SDB platform. To access ETFs and U.S. exchange securities in the SDB, participants must have an SDBA Participant Release form on file to indemnify the Retirement Board, the SFDCP and SFERS of their investments in a self-directed brokerage account. Ms. Chui Justen reported that an electronic consent/indemnification form is currently in development and is expected to be available at the end of 2019. As a result, Staff is proposing to open the SDB platform to ETFs and U.S. exchange securities in early 2020 after the release of the consent/indemnification form. In the meantime, SDB participants can continue accessing their mutual fund-only SDB accounts through TD Ameritrade after the Labor Day transition to Voya.

While TD Ameritrade will program the SDB platform according to the allowable investments as stated above, security types may change over time. For instance, a company stock can turn into a pink sheet stock, and some securities may change their registrations. Staff has requested TD Ameritrade to run a quarterly holdings screen to identify securities on restricted list and provide any exceptions to Voya and Staff to determine any next steps on a case by case basis.

Ms. Chui Justen reported after the Retirement Board approves the expansion of SFDCP's Self Directed Brokerage Platform, Staff and consultant will bring an updated SFDCP Investment Policy Statement reflecting these changes to the Retirement Board for approval.

The Board reviewed and discussed the material and engaged in a question and answer session.

President Driscoll called for public comment.

John Stenson, Member, spoke against high risk investments such as hedge funds.

There were no further comments and public comment was closed.

Action: Moved by Commissioner Heldfond, Seconded by Commissioner Bridges, to Approve SFDCP's Self Directed Brokerage Platform with the restrictions by TD Ameritrade as presented to include mutual funds, ETFs, and all publicly-registered securities on US exchanges.

Ayes: Commissioners Bridges, Casciato, Driscoll, Heldfond, Stansbury

Absent: Commissioners Chu, Safai

10. 081419-10 Discussion Item Review of SFDCP Investment Performance for the First Half of 2019

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum, Callan presentation and IMS Q2 Report

Greg Ungerman, SFDCP's Consultant, Callan Associates, presented a review of the Plan's investment performance for the first half of 2019.

The Deferred Compensation Plan was valued at \$3.6 billion on June 30, 2019. The change in value during the first half of 2019 was an increase of \$382 million; \$21 million came from new net money deposited into the Plan and investments grew by \$361 million.

Mr. Ungerman reported that the target date funds had a strong quarter of performance given the robust stock and bond market. All of the vintages performed inline with their custom benchmark returns and ranged between 3.0% and 3.1% for the quarter. Longer term results are very good and outperforming their respective benchmark returns.

Mr. Ungerman reported that the target date series managed by Russell Investments collectively makes up 21% of plan assets at \$757 million as of June 30, 2019. There were small net outflows from the two most conservative target date funds and rest of the funds dated 2025 and longer had net positive inflows, which means they are being used as expected. He noted that the target date 2060 and 2065 funds were added to the plan during April 2019.

Mr. Ungerman reported that, given the strong equity and fixed income market for the year to date, absolute results for the core investment funds have been very good. Relative performance has also been strong except for the following watch list actions:

- Staff and consultant placed Galliard on the watch list for upcoming organizational changes. Galliard has announced they have four expected retirements from the senior leadership team including two of the founders, Richard Merriam and Karl Tourville. Both will remain as advisors to the firm through December of 2022. Callan and Staff have been in close contact with Galliard and their parent, Wells Fargo on this transition period and will continue to monitor closely.
- Staff and consultant also placed Morgan Stanley's US REIT and Global REIT funds on the watch list for performance reasons. Mr. Ungerman reported that, given the conservative value-oriented philosophy and style of these funds, it is not unexpected that these funds have fallen short of the benchmark and peer group over the recent term; however, Staff and consultant believe that the magnitude of the underperformance warrants further analysis.

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

President Driscoll called for public comment.

John Stenson, Member, spoke about hedge funds.

There were no further comments and public comment was closed.

Action: This was a discussion only item.

11. 081419-11 Discussion Item SFDCP Manager Report

Documents provided to the Retirement Board prior to the current meeting: Deferred Compensation Manager Report

Diane Chui Justen, Deferred Compensation Plan Manager, reported on the following items:

- SFDCP Quarterly Activity Report as of June 30, 2019
- Featured insert in SFERS annual statement mailing
- Transition to Voya on schedule for September 3 launch
- Investment update

The Board reviewed and discussed the material and engaged in a question and answer session with staff.

Commissioner Casciato asked Staff to track legislation regarding mandatory withdrawals to report back to participants.

Ms. Chui Justen explained that retirees continue to be eligible for participation in the Deferred Compensation program after retirement - the only restriction in a retiree's participation is that no new deferrals can be made as only payroll deductions are accepted into the Deferred Compensation Plan and retirees are no longer on City payroll.

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: This was a discussion only item.

ADMINISTRATION CALENDAR

12. 081419-12 Action Item Approval of President’s Committee Assignments

Documents provided to the Retirement Board prior to the current meeting: President’s Memorandum

President Driscoll presented the following committee assignments for 2019-2020:

COMMITTEE	CHAIR	MEMBERS
Operations Oversight	Casciato	Chu, Safai
Deferred Compensation	Bridges	Stansbury, Driscoll
Personnel	Stansbury	Heldfond, Casciato
Governance	Driscoll	Chu, Stansbury
Investment	Heldfond	Committee of the Whole

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: Moved by Commissioner Casciato, Seconded by Commissioner Stansbury, to Approve President’s Recommended Committee Assignments.

Ayes: Commissioners Bridges, Casciato, Driscoll, Heldfond, Stansbury

Absent: Commissioners Chu, Safai

13. 081419-13 Discussion Item Travel Expense Report for the Quarter Ended June 30, 2019

Documents provided to the Retirement Board prior to the current meeting: Travel Expense Report for the Quarter Ended June 30, 2019

Jay Huish, Executive Director, provided a written and oral report on this item.

President Driscoll called for public comment.

There were no public comments and President Driscoll closed public comment.

Action: This was a discussion only item.

14. 081419-15 Discussion Item Executive Director's Report

Documents provided to the Retirement Board prior to the current meeting: Executive Director's Report

Jay Huish, Executive Director, provided a written and oral report on this item.

Administrative Update:

- SFERS Operations Management Dashboard – June 2019
- Cost Effect Report – Ordinance amending Heart Trouble and Pneumonia Presumptions for Firefighter and Police Officer Industrial Disability and Death Benefits Ordinance
- Staff Commendation Letter Update
- Annual Board Self-Evaluation Surveys – Governance Consultant Ashley Dunnig, Nossaman, will distribute the abbreviated survey to all Board members within the next few days

Attachments:

- SFERS Operations Management Dashboard – June 2019
- Department Letter dated July 25, 2019 re: Ordinance amending the Administrative Code to amend heart trouble and pneumonia presumptions for firefighter and police officer industrial disability and death as a result of duty retirement benefits
- Retirement Board Forward Calendar for August 2019 to January 2020
- Request for Proposal in Progress Blackout Period
- *Public Retirement Conferences and Training Programs for SFERS Trustees* – Nossaman LLP
- *The Cortex Report* – Conferences and Training Events listing

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: This was a discussion only item.

15. 081419-15 Discussion Item Retirement Board Member Good of the Order

Retirement Board members may request that any matter be calendared at a future meeting. All such requests shall be calendared in a reasonable time. (Board Operations Policy ¶124.) The Board will not discuss any items requested to be calendared until a subsequent meeting when the matter is included on the agenda with the required public notice.

Commissioner Heldfond congratulated all staff on the excellent returns which were announced by NEPC, the Board's investment consultant.

President Driscoll called for public comment.

There were no comments and public comment was closed.

Action: This was a discussion only item.

16. 081419-16

Adjournment

Having no further business, the Board adjourned the meeting at 3:45 PM



Respectfully submitted,
Jay Huish, Executive Director